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SUBJECT: 2006 DEFENSE BUDGET AND PROPOSED DEFENSE REFORMS -
DOES MORE MONEY MEAN MORE MUSCLE?

Classified By: Minister-Counselor for Political Affairs Kirk Augustine
for reasons 1.4 (a/b/d).

[¶1.](#) (C) Summary. On December 27 President Putin signed a defense budget of 666 billion rubles (23 billion dollars) for 2006, a nominal increase of nearly 26 percent. It is not clear, however, what if any impact on Russian military capability that allocation towards defense will have. The highest growth of expenditures under the 2006 Russian defense budget will occur in mobilization and reserve training, and in training for and participation in collective security and peacekeeping efforts. Putin and Defense Minister Sergey Ivanov cite defense reform as a top priority, but recent history indicates real reforms come slowly. In 2008 conscription is to be lowered to require only one year of service, and the goal by 2015 is to have a force of half contracted soldiers and half conscripted soldiers. Discussions with a Duma member and independent defense experts revealed doubts, however, about the effectiveness of the reforms that have been declared and about the extent to which increased military spending is being translated into a more competent military. End Summary.

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DEFENSE BUDGET - THE NUMBERS

[¶2.](#) (U) On December 27 Putin signed the 2006 budget, which allocates 4.3 trillion rubles (147 billion dollars), compared to the 2005 federal budget of nearly 3 trillion rubles (105 billion dollars) -- a nominal growth of over 40 percent. Of that amount, 666 billion rubles (23 billion dollars) are allocated for national defense, compared to the 2005 defense budget of 529 billion rubles (18.2 billion dollars), an increase of almost 26 percent in nominal terms. Additionally, the budget for other national security and law enforcement activities, which often include military-type actions undertaken by organizations such as the Interior Ministry, is 541 billion rubles (18 billion dollars).

[¶3.](#) (C) Analyzing those numbers reveals that the defense budget, as a percentage of the federal budget, actually decreased in 2006 by 1.8 percent compared to 2005. If the defense budget and the national security and law enforcement budget items for 2006 are combined, their portion of the federal budget still declines by 2.2 percent compared to [¶2005](#). However, those figures are nominal (i.e., not adjusted for the 11-12 percent yearly inflation rate that Russia has been running of late).

[¶4.](#) (U) According to open sources and analysis from Duma Defense Committee staffers Vladimir Evseyev and Petr Romashkin, Russian defense budget allocations for 2006 are broken down into eight subsections: the Armed Forces of the Russian Federation; mobilization and reserve training; mobilization readiness of the economy; training for and

participation in collective security and peacekeeping efforts; nuclear weapons; meeting international commitments in the area of military and technological cooperation; applied scientific research for the national defense; other issues related to the national defense. The following table shows how the budget is broken down into those subsections, comparing 2006 and 2005 data. The figures indicate that the highest percentage growth of allocations in the Russian defense budget is in mobilization and reserve training and training for and participating in collective security and peacekeeping efforts. (In 2005 the highest percentage growth was in mobilization readiness of the economy, other issues related to the national defense, mobilization and reserve training, and nuclear weapons.) All figures are in millions of rubles:

	2005	2006	% nominal change
Def Budget Overall	529,133.4	666,026.6	25.8
Armed Forces of RF	384,043.7	497,771.2	29.6
Mob. & Reserve Trng	1,895.4	5,181.3	173.3
Mob. Readiness Econ	3,500.0	3,500.0	0.0
Coll. Sec & PK	61.1	98.3	60.9
Nuclear Weapons	8,693.1	11,429.6	31.5
Int'l Commitments	6,231.0	6,083.2	-2.4

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Scientific Research	81,175.0	92,917.9	14.4
Other issues	43,341.1	49,045.2	13.1

15. (C) In recent public statements, Putin and Defense Minister Ivanov have spoken about increasing weapons procurement by 50 percent. In his annual State of the Russian Armed Forces briefing to the Moscow Attach Corps, Russian Chief of the General Staff Yuri Nikolayevich Baluyevskiy confirmed that figure. Often-quoted details by the GOR indicate that the state defense procurement authorization for 2006 will equip Russia's Armed Forces with six new Topol-M intercontinental ballistic missiles, six space satellites, 12 space-launch vehicles for satellites, 31 T-90 tanks, 125 armored vehicles, and 3,770 trucks and light vehicles. The new Topol-M missiles are part of Russia's program to modernize its nuclear deterrent. While 31 new T-90 tanks would represent a battalion's worth of new equipment, it is a small number compared to Soviet-era production numbers. Similar authorizations of new equipment in the last five years have resulted in few actual purchases.

In terms of money for those systems, GOR officials say budgetary allocations to state defense procurement in 2006 will amount to nearly 237 billion rubles, including 164 billion rubles for purchases and repairs of armaments and equipment. That sum represents an increase of over 53 billion nominal rubles from 2005. However, it seems the promised 50 percent increase is not accurate, since simple math shows the proposed real increase in procurement is about 22 percent. At the macro-level then, 35 percent of the defense budget will go to new purchases and refurbishment, while 65 percent will go to day-to-day maintenance. Putin recently said the goal by 2015 is to have 70 percent of the defense budget go to "developing the Armed Forces" (i.e., new equipment procurement and technological advancement) and 30 percent to day-to-day maintenance, which is nearly the reverse of the current situation.

16. (C) On December 16 we met with State Duma member General Major Nikolay Maksimovich Bezborodov of the United Russia party. Although he acknowledged that the defense budget for 2006 represents a 22 percent increase (rather than the 26 percent figure calculated from the table above), he said it would be significant only if the Russian military already had everything it needed. He stressed that the military was not over the "crisis" of the transition from the Soviet to the Russian military and that purchases of a few systems each year were not enough to modernize the armed forces. Noting the difference in the size of the Russian defense budget compared to that of the U.S., he pointed out that the U.S. spends more than 400 billion dollars a year on defense, while Russia spends closer to 25 billion dollars. He emphasized, as the above analysis shows, that the military budget as a percentage of total federal spending has actually decreased for 2006. Bezborodov stressed that Russia should spend at least 3.5 percent of its Gross Domestic Product (GDP) for national defense. According to him, the 2006 defense budget will account for only 2.74 percent of GDP, compared to 2.84 percent of GDP for 2005. However, he gave no explanation of why the target figure should be 3.5 percent of GDP, and could not define exactly how the defense budget was developed.

17. (C) Bezborodov said the key to Russia's defense and readiness is its Strategic Rocket Forces, which receive the most money for modernization and maintenance. According to him, nuclear weapons are what keep Russia secure in the modern world, and if Russia were to give up its nuclear weapons, it would be a catastrophe. He added, however, that the battle against terrorism was a top priority, and Russia needed to replace outdated conventional weapons systems and tactics.

18. (C) Bezborodov expressed concern about destructive processes influencing Russian military readiness that the GOR was trying to address in its budget increase for 2006 (and, he hoped, 2007) and in reform measures. One of the most destructive factors influencing readiness was the mass exodus of young officers from the military, which he said was the first and primary indicator of a crisis in the military. He said some possible reasons for unhappiness were low pay and loss of prestige. In 2005 MOD civilian personnel received an 11 percent increase, while enlisted soldiers received a 200 ruble (about seven dollars) per month increase. Salaries for officers were not increased in 2005. Bezborodov said that each year of simply increasing the military budget was meaningless without real reform, i.e., significant pay increases, transition to a military of 50 percent contracted

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and 50 percent conscripted personnel, reduction of conscription to one year, and enhancement of the military's image. One of the main morale problems is that enlisted contract soldiers often receive more money than officers, causing disillusionment and disdain. According to Krasnaya Zvezda, the MOD's official daily newspaper, contract soldiers are slated to receive a 15 percent pay increase in 2006 without a similar increase going to career officers. However, the MoD plans to extend that increase to all service personnel by 2008, according to Krasnaya Zvezda. Bezborodov said that if that inequality in pay were addressed, there would be far fewer officers leaving the service. Additionally, he said officers currently had a five-year commitment to serve once trained, but many if not most get out before the end of five years for various reasons. That must end, he stressed, and officers who do not finish their term of service should pay back their education. Bezborodov seemed nostalgic for Soviet times, mentioning that when he entered service in 1967 he had a 25-year commitment.

19. (C) Bezborodov also highlighted lack of adequate housing as a factor affecting officer and troop morale. He said that

in 2006 the military would initiate a program for officers to pay for housing, and after 10 years they would be able to own their housing. He added that housing for contract soldiers would be improved through construction of dorms for single soldiers and apartments for married soldiers.

¶10. (C) Bezborodov lamented the lack of respect that the younger generation had for serving their country. The age group of 18-27, the age of conscription and service, had grown up with an attitude that they did not need to serve. That had affected societal attitudes as a whole. According to Bezborodov, 91 percent of that eligible age group received exemptions or successfully avoided service, while the remaining nine percent were often low-quality recruits. Thirty percent of that nine percent were illiterate at the high school level. He said the military needed to recruit the intelligent and technically smart.

¶11. (C) Turning to Putin's proposal that conscription be reduced to one year in 2008, Bezborodov reasoned that 176,000 recruits would be trained every year instead of every two years. That would increase the number of recruits available for mobilization. He also mentioned that exemptions from military service would be reduced to only about 24 categories from the current 200. A draft bill to change conscription may be submitted to the Duma in the first part of 2006, he said. Getting the number of exemptions reduced would be a tough sell to the Duma and to the public, he noted. There was a need for public outreach on the issue, and U.S. and European models were being studied.

¶12. (C) Bezborodov did not clearly explain how the Russian defense budget was developed, but said it was important to first identify the threat. He identified terrorism in general as a threat, but added that it was difficult to say who a future enemy might be. He called NATO enlargement worrisome, especially as NATO gets closer to Russia's borders. The "buffer zone" that separated NATO and Russia was quickly disappearing. He considered China a general threat as well, saying that any nation with a population of 1.3 billion and growing on Russia's border was a threat when Russia's population was only 142 million people.

BELKIN: REFORM SLOW, BUT POINTED IN RIGHT DIRECTION

¶13. (C) According to Aleksandr Belkin of the Council on Foreign and Defense Policy, the road to defense reform in Russia is on a zig-zag course, although it is ultimately going in the right direction. He said that Defense Ministers going back to Defense Minister Grachev in 1992 had paid at least lip service to reform, adding that Defense Minister Ivanov's biggest reform problem was modernizing the military. Belin was critical of the current inertia and called planning for the defense industry uncoordinated at best, noting that Soviet-era defense planning at least had a system and direction.

¶14. (C) Belkin criticized the Russian General Staff for the lack of real defense reform, but praised MOD Ivanov for moving in the right direction. He said Russian generals were stuck in a Cold War mindset and nostalgic for the "good old days" of the Soviet military. They were also still suspicious of NATO and U.S. intentions. Belkin noted that Yeltsin had feared the Russian military; his overriding goal had been to keep it calm, controllable, and out of politics. Putin, on the other hand, saw an untrained, under-equipped military as a threat to the state and had made military

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reform a top priority. He was also skeptical that new equipment would actually be procured. He said the finance and budget department of the MOD had a relatively small staff (dozens instead of hundreds or thousands like the U.S.) and is overwhelmed. Getting the right money to the right program

would be a challenge.

¶15. (C) Belkin agreed with Bezborodov that the greatest security threat to Russia was terrorism from the Caucasus. He considered the Beslan school attack of 2004 a turning point in Russian attitudes towards terrorism and reform. Unlike Bezborodov, however, Belkin did not see NATO, the U.S., or China as real security threats. He expressed concern about large arms caches left over from the Soviet Union and located throughout the CIS (Commonwealth of Independent States) that were difficult to control.

¶16. (C) Belkin did not see the reduction of conscription service from two years to one year as a positive reform. He said a soldier could not be trained in a year and then be expected to be called up in a mobilization without significant additional training. Tying military service to civil society was key to ensuring a trained army. Noting that the current attitude of young males was to avoid military service at all costs, Belkin argued for no exemptions. He said there was currently little public debate on the draft, unlike during the Yeltsin years. He was unsure whether Russia needed an all-contract army or a combination of contract and conscription. He thought the GOR should study other nations' military structures, including the Swiss or Israeli.

GOLTS: PUTIN DOES NOT QUESTION HIS MILITARY EXPERTS

¶17. (C) Aleksander Golts, First Deputy Editor-in-Chief of Yezhenedelniy Zhurnal, was very critical about the development of Russia's defense budget, saying the information available to the public on the budget and military reform was "useless." He said the MOD consistently requested more money but offered no real plan on how to address threats to Russian security. It wanted to spend money without setting priorities, from shotguns to Topol-M missiles. In contrast, he said, the U.S. Secretary of Defense was willing to cut programs that the U.S. military wanted but could not afford in light of other priorities. Golts contended that Putin believes whatever his military experts tell him, and there is no oversight or discussion. He said the Russian budget was fat with money from oil profits, but the old Soviet-style planning methods do not establish clear priorities. The figure of 3.5 percent of the GDP that Bezborodov argued should be spent on defense had no basis in real planning, Golts said, other than that it was what Yeltsin wanted in 1996. There was no system of review and no real control over the MOD and how it allocates resources. Most state resources in the Soviet period went to military preparedness, which was linked to military production. Although that had changed, the civilian and military communities did not communicate and the civil-military relationship was dysfunctional.

¶18. (C) Golts identified the Caucasus and Central Asia as Russia's main security concerns. He said weak authoritarian regimes, poverty, and a growing gap between the rich and the poor would breed instability. There was de facto no border control between Russia and Kazakhstan, and that caused both an immigration problem and a security threat, since terrorists could enter Russia undetected. He also saw Belarus and Ukraine as potential threats because of the energy pipelines transiting those countries to Western Europe. Russian military planners preferred not to deal with those real threats, he said. They would still rather plan against a global adversary, such as NATO. Golts did not highlight China as a major security threat to Russia.

¶19. (C) Golts said any "reform" plan that included conscription and contracted soldiers was likely to fail. He quoted Defense Minister Ivanov as saying in November 2003 that "reform is over." According to Golts, Ivanov meant that reduction of the armed forces was over. Golts said that by the end of 2005 there were supposed to be 72 units, not clearly defined, in permanent readiness that were to be

manned by contracted soldiers. Golts indicated, however, that only two divisions had undertaken reform (the 76th Paratroop Division at Pskov and the 42nd Motorized Rifle Division in Chechnya). He said 40 other units were in various states of readiness, but none manned at levels more than 70 percent. He also argued that contracted soldiers were little more than conscripts who have been forced to sign contracts and said there was no coherent plan to train and

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maintain a professional non-commissioned officer corps.

Comment

120. (C) More money will be spent on defense in 2006 than in 2005, but it is not clear that the increase will have a significant impact on combat readiness. For the most part, the Russian military has yet to emerge mentally from its Soviet past. It has neither clearly identified the security threats it must face in the future nor undertaken the reforms necessary to make it a modern fighting force.
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